

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
March 19, 2004
9:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the Hilton Tucson East, 7600 E. Broadway, Tucson, Arizona. Mr. Karl Polen, Chairperson, Arizona State Retirement System Board, called the meeting to order at 9:30 a.m., MST.

The meeting was teleconferenced to the ASRS office at 3300 N. Central Avenue, Phoenix, Arizona 85012.

1. Call to Order; Roll Call, Opening Remarks

Present: Mr. Karl Polen, Chairperson (Via Teleconference)
Ms. Charlotte Borchert
Mr. Jim Bruner
Dr. Chuck Essigs
Ms. Anne Mariucci (Via Teleconference)
Dr. Keith Meredith
Mr. Michael Townsend
Mr. Lawrence Trachtenberg
Mr. Steven Zeman

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion and Appropriate Action Regarding the Election of Vice Chairperson

Motion: Ms. Charlotte Borchert moved to appoint Mr. Jim Bruner as the Vice Chairperson of the Arizona State Retirement System Board.

Dr. Keith Meredith seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

Mr. Karl Polen, Chairperson, turned the meeting over to Mr. Jim Bruner, Vice Chairperson, because Mr. Polen attended the meeting via telephone.

3. Approval of Minutes of the February 20, 2004, Regular Meeting of the ASRS Board

Motion: Dr. Keith Meredith moved to approve the minutes of the February 20, 2004, regular meeting of the ASRS Board.

Dr. Chuck Essigs seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Consent Agenda

Ms. Charlotte Borchert moved to approve Refunds, Death Benefits, Retirements, and System Transfers.

And

Approve the Emergency Rule Making for Rules R2-8-123 and R2-8-126.

And

Approve the revision of the implementation date for interest on Payroll Deduction Agreements to July 1, 2004.

Dr. Chuck Essigs seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the Following Issues and Activities

- A. Opening Remarks**
- B. The ASRS Overview**
- C. Commitment to Customer Service**
- D. Status Report from External Operations**
- E. Status Report from the Investment Management Division**

Ms. Charlotte Borchert, Board Trustee, explained that Paul Matson, ASRS Director will provide an overview of the ASRS. Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, will provide a presentation on the ASRS' commitment to customer service, Mr. Richard Stephenson, Deputy Director, External Affairs, will provide a status report from External Operations, and Mr. Gary Dokes, Chief Investment Officer, will provide a status report from the Investment Management Division (IMD).

Mr. Matson provided a status update on investments, contribution rates, and service purchase payroll deduction agreements. Additionally, Mr. Matson discussed the ASRS' key initiatives which included:

- Agency Governance

- Review of the Agency's Vision, Mission & Goals
- Strategic Planning Initiative
- Securities Litigation Infrastructure
- Health Insurance Issues
- SRSP & Modified Drop
- Information Technology Plans
- Budget Update
- Rules & Policy Review
- Equity, Simplification & Efficiency Analysis
- Government Finance Officers Association Award
- Senior Staff Recruitments

Mr. Guarino provided a presentation on the influences on customer service as well as the ASRS' goal to identify, meet, and exceed expectations in providing quality customer service. This includes providing reliable and timely benefit disbursements, a quick response and resolution to service requests, and easy access to expert counseling, education, and retirement planning tools. Additionally, Mr. Guarino proposes providing instant access to up-to-date account information, effective communication with members and employers, as well as a flexible and affordable health insurance programs.

Mr. Guarino highlighted some accomplishments thus far as greater accessibility, improved service delivery, and a comprehensive analysis of health insurance issues. Mr. Guarino added that the goal of greater accessibility has been obtained by establishing a full-time Call Center, upgrading Web site services, and expanding seminars, group meetings, and walk-in services. Also, the ASRS has expanded communications and relations with ASRS employers.

The following improvements were identified as expected over the next three years:

- Faster disbursement of benefit payments
- Instant access to up-to-date account information
- More comprehensive, easy-to-read annual member statements
- Same day benefit estimates
- Faster service purchase cost calculations
- New health insurance program
- More targeted education programs
- New program options
- Greater attention to rising contribution rates
- More satisfied members

Mr. Stephenson began his presentation with the area of government relations. He stated there are currently 26 bills related to retirement or the ASRS before the State Legislature. There are four ASRS-initiated bills which cover service purchase, retirement incentive costs, long term disability, and asset management limitations. Mr. Stephenson added that Ms. Denisse Gee has been hired as the Government Relations Officer.

The demand for the Employer Relations program continues to grow. Currently this section acts as the ombudsman for employers as well as a training mechanism for the current 715 participating employers.

The Rules program currently has a number of rules in process such as service purchase, actuarial assumptions, practice & procedures, modified DROP, and the ASRS System. Ms. Nancy Johnson, Rules Coordinator, is the key person in this area.

Communications is another important aspect of the External Affairs Division. This includes issuing the Financial Horizons member newsletter and work in publishing the ASRS' Annual Report in January. Mr. David Cannella, Communications & Media Relations Manager, and Ms. Stephanie Marries, Public Information Officer, are the key personnel in this area.

Mr. Gary Dokes, Chief Investment Officer, provided a presentation on the ASRS' Investment Management program and current financial markets. Currently, the ASRS manages approximately \$21.1 billion in assets. These assets are invested in U.S. equities, international equities, and U.S. fixed income. These assets are invested in 33 portfolios. Of these 33 portfolios, 27 portfolios are managed through external managers and six portfolios are managed internally.

Determining the ASRS' asset allocation policy is the most important investment decision that is made regarding the management of the Fund's investment assets. This is because asset allocation is responsible for 80-90% of a fund's return. Manager selection, a manager's security selection and market timing decisions account for only 10-20% of a fund's return.

The ASRS' exposure to the U.S. equity markets totals 53%. The ASRS currently has an allocation of 15% in international equities, 26% allocated to U.S. fixed income, and 6% allocated to real estate. The real estate allocation was initiated and adopted in 2003.

The primary responsibilities of the IMD include ensuring the following:

- Monies are available to meet the ASRS' cash flow needs
- Asset allocation targets are maintained, as mandated by the ASRS Board
- All portfolios' strict compliance with the ASRS Board directives, portfolio guidelines, and Arizona Statutes

The ASRS continuously employs a series of checks and balances that ensures the ASRS investments maintains a strong record of compliance with all federal and state laws. The ASRS is vigilant in promoting enhanced anti-terrorist actions, including the monitoring of current issues, as they pertain to investments and the administration. Also, the IMD conducts ongoing research on terrorism and anti-terrorist policies as they pertain to investments. The ASRS believes strongly that any company or person involved in illegal activity, including breaches of state or federal investment law, should be subject to prosecution.

Mr. Dokes provided a status update pertaining to current financial markets, including the economic backdrop and asset class review of the U.S. equity markets, the international equity markets, and the U.S. fixed income markets.

6. Presentations, Discussion and Appropriate Action Regarding the 2004 Legislation as requested by the External Affairs Review Committee

Ms. Denisse Gee, Government Relations Officer, provided a status update pertaining to four bills which included HB 2029 Service Purchase; Cost, HB 2052 Retirement Incentives Costs; Employer's payments, HB 2077 Long Term Disability Program, and HB 2078 Asset Management; Limitations.

7. Presentation, Discussion and Appropriate Action Regarding Facilitation of Member Association Contact with Members

Numerous associations have inquired whether or not the ASRS would be able to assist them in communicating with current and prospective constituents. These associations include the American Federation of State County, and Municipal Employees (AFSCME), All Arizona School Retirees Association (AASRA), and Arizona State Retired Employees Association (ASREA).

Mr. Matson explained that the purpose of this agenda item is to discuss current services available to member association groups of the ASRS and whether those services should be expanded, contracted, or remain unchanged. Also, to facilitate appropriate communication by member associations, utilizing the fewest resources possible, and without providing private information of ASRS members directly to the requestor.

Mr. Matson outlined six different options in facilitating such a service as follows:

- Links on the ASRS Web site
- Bulletin board on the ASRS Web site
- Bulletin board in the ASRS newsletter
- Retiree payroll notices (blind mailers)
- Demographic specific blind mailers
- Allowing members to opt in or opt out of receiving notices from interested groups

Some members of the Board indicated that they support placing links on the ASRS Web site and possibly a listing in the newsletter, but do not support any type of a mailing to the ASRS members. The Board agreed to have ASRS staff come back with a proposed policy pertaining to this issue.

8. Director's Report

Mr. Matson provided a brief explanation on the different sections found in the Director's Report.

9. Brief Summary of Current Events

None.

10. Board Requests for Agenda Items

None.

11. Call to the Public

Mr. Bill Peltier, had questions and comments regarding Mr. Matson's presentation on ASRS initiatives. Specifically, he asked about the budget funds outlined during Mr. Matson's budget update. Additionally, he commented that the ASRS is one of the best systems in the country.

Mr. David Mendoza, Field Representative, AFSME, addressed the Board. He had comments regarding agenda item #7, specifically option #5 – Demographic blind mailers. He asked that the Board consider this option. This would benefit retired members by keeping them in contact with different member associations.

12. The next ASRS Board meeting is scheduled for Friday, April 16, 2004, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Jim Bruner, Vice Chairperson, adjourned the March 19, 2004, meeting of the ASRS Board at 11:10 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary

Date

Paul Matson, Director

Date